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RUEHAC/AMEMBASSY ASUNCION 0790
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RUEHBR/AMEMBASSY BRASILIA 5900
RUEHBW/AMEMBASSY BUENOS AIRES 1582
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RUEHPE/AMEMBASSY LIMA 0752
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RUEHQD/AMEMBASSY QUITO 2583
RUEHSG/AMEMBASSY SANTIAGO 3901
RUEHDG/AMEMBASSY SANTO DOMINGO 0411
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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000610

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

E.O. 12958: DECL: 01/12/2017

TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)

SUBJECT: VENEZUELA SIGNS TREATY WITH TNT ON SHARED GAS
RESERVOIRS

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

¶1. (SBU) SUMMARY: President Chavez and Trinidad and Tobago (TNT) Prime Minister Patrick Manning signed an accord to unify the reserves of two offshore gas fields on March 20. The accord is the first unitization agreement signed in the Western Hemisphere. The agreement will permit both countries to design exploitation strategies that will preserve the shared reservoirs and treat them as a single geological unit.

We do not anticipate the agreement producing significant new gas investment on the Venezuelan side due to uncertainties regarding the legal framework for gas investments and PDVSA's operational problems. END SUMMARY

BACKGROUND

¶2. (SBU) President Chavez and TNT Prime Minister Patrick Manning signed an accord on March 20 that unified the reservoirs of two offshore gas fields located on the TNT-Venezuelan border. As a result, the reservoirs of the fields will be treated as a single geological unit, enabling both countries to design exploitation strategies that will preserve the reservoirs.

¶3. (SBU) The agreement is the result of a series of agreements between the two countries. In 1990, Venezuela and TNT signed a Unitizing Treaty that set out the manner in which reservoirs that extend across their mutual border could be exploited. The treaty also established the manner in which the costs and benefits of the exploitation would be distributed. The respective energy ministries of the two countries then signed a memorandum of understanding on August 12, 2003 designed to create a process to implement their 1999 Delimitation Treaty. The energy ministries signed a Data and Information Exchange Agreement on April 24, 2004 that identified shared reservoirs. A guidance committee was established that set up technical working groups to study

various fields.

GENERAL TERMS OF THE AGREEMENT

¶4. (C) According to BRV background documents supplied by local analysts, the accord quantifies the natural gas reserves of the Loran-Manatee fields at 10 trillion cubic feet, of which 73% belong to Venezuela. As a result, Venezuela can declare commerciality for the Loran Manatee area and begin exploitation of the fields. The agreement also stipulates that the Dragon field in the Mariscal Sucre development does not communicate with the TNT's Chaconia field. Therefore, the two fields can be exploited without a unitizing agreement between TNT and Venezuela.

¶5. (U) Chevron Latin America President Ali Moshiri in an interview published in the March 22 edition of the El Universal newspaper stated the accord would allow Chevron to develop block 2 of the Plataforma Deltana project. Block 2 of Plataforma Deltana contains 7 billion cubic feet of gas, which is sufficient for a gas train. Moshiri stated gas from block 2 would be processed in yet to be built liquid natural gas (LNG) facilities in Venezuela. In addition, Moshiri stated that gas from Loran Manatee, which abuts block 2, would also be developed in Venezuela. Moshiri noted gas from block 2 would not be processed in Trinidad but rather in Venezuela. He also said that gas from Trinidad would be developed in Venezuela unless both governments reached a different agreement. Moshiri stated Chevron would present a development plan for block 2 to the BRV by the end of the year.

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COMMENT: MUCH ADO ABOUT VERY LITTLE

¶6. (C) COMMENT: Although the agreement was announced with great fanfare by President Chavez and will make it easier to exploit the fields in question, we do not see it producing much in the way of tangible results for Venezuela, particularly with respect to foreign investment. President Chavez has announced that the BRV will reform the legal framework for the gas sector. Private sector contacts believe the amended gas law will closely resemble the 2001 Hydrocarbons Law and sharply reduce incentives to invest in the sector. In addition, the BRV has required private sector investors in the gas sector to sell significant percentages of their production to the domestic market, which has a regulated price. Given the present state of uncertainty and the lack of incentives, it is hard to imagine private sector companies jumping at the chance to invest in a major gas project in Venezuela. Both Statoil and Chevron, which are exploring for gas in Plataforma Deltana, have told Petroleum Attaché (Petatt) in the past that they will not carry out significant investments until the investment environment in Venezuela stabilizes. When Petatt asked a Wood Group executive on March 21 what impact the treaty would have on the Venezuelan gas sector, he replied that it changed nothing. He opined that Venezuela may use the treaty to monetize its gas in TNT but doubted the BRV would do so, since it would require it to use private sector facilities in TNT. He also noted that he does not believe that Venezuela will construct the promised LNG facilities on time or be able to deliver LNG to Jamaica as promised in a Venezuela-Jamaica memorandum of understanding signed on March 13.

WHITAKER